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KEDI ECONOMIC SURVEY

DECEMBER 1982 ISSUE



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KEDI ECONOMIC SURVEY

DECEMBER 1982 ISSUE

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This forecast uses the November, 1982, U.S. Department of Commerce revised National Income and Product data. Also used is the November 1982, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

Although the last quarter of this year had been seen here as showing minor improvement in recent issues, the view is now that it will be more of the same low levels. However, slow growth will begin by the second quarter next year. REAL GROWTH The economy remains rather stuck. Any gains are fairly minute. 2.2 per cent growth is expected in 1983. PRICES Solving inflation has begun, but the increase in the rate in October was greater than that of the prior month. CPI changes are still in the 7-8 per cent range for each of the next few years. EMPLOYMENT The jobless rate went up more than had been expected here. It will start to edge down next year and average 9.7 per cent then in 1983. HOUSING Now, here is some mild good news amidst the morass of marginal moves both directions. Next year is seen as being about 28 per cent better than this year. Still the total of 1.3 million starts for 1983 as forecast here is below normal. AUTOS The sad condition of this industry will remain in the next year. BUDGETS The forecast for the Federal deficit is increased in this issue for fiscal '83 and '84. Do not panic. It does not mean the end of slow recovery, but anything close to a balanced budget would put us in reverse. INCOME Here, the increased wages adjusted for inflation point to slight declines in real wages through 1984. Corporate profits will be up nicely. MONEY AND CREDIT Forecast for 1983 shows increases in money supply above the Federal Reserve targets. INTEREST RATES Stable interest rates for 1983 are predicted.

1.02 OVERVIEW

During 1983 there will be growth. It will be at a low rate and not as bad as this year. KEDI forecasts the rate of change in the GNP as 2.6 per cent as an average for next year. In 1984, the pace will accelerate somewhat. Obviously, this Institute does not agree with the forecasters that look to no growth at all or a tiny bit of improvement.

As Louis Rukeyser pointed out in mid-November, there are aspects of the economy that we can appreciate rather than deprecate. First, is the lowering of the inflation rate. For the first time in many years, the rate has dropped dramatically. Given continuation of efforts that have helped lead to lower inflation currently, there is a real chance that this nation would not be faced with anything like double-digit price leaps in the near future.

Secondly, the steep slide of interest rates is playing a major role in the beginning of renewed growth. This will clearly help businesses and consumers and lead to more jobs.

It should also be remembered that the U.S. dollar has renewed strength. Any holiday traveler to England, for instance, will be pleased that due to the drop in the price of the pound, spending there gets about 25 per cent more for the dollar than it did about two years ago.

There is a danger. We could end up back in the abyss of depression if some politicians are heeded and the "second stage of the rocket" is set off too fast.

KEDI recommends that the Administration stick to cautiously restrictive monetary and credit policy. It is also important that the large Federal deficits be acknowledged and not fought tooth and nail (so-to-speak).

OVERVIEW

The deficits have been growing over the last few years and interest rates and inflation have gone down. There are those that keep saying they go up with higher deficits. It simply is not so. Any moves to drastically lower the deficit too quickly or alter fiscal policy could plunge us back into a real mess.

It is still viewed here that interest rates declines have reached a plateau. Stability will prevail next year.

The size of the deficit that had been forecast here for many months was almost a bullseye for fiscal 1982. It is still seen as larger in fiscal 1983.

It is true that joblessness is a major problem. The rate for November will be higher than had been forecast here. The problem will not be solved quickly. Calculations show that 5 billion dollars or more Federal program against the joblessness may significantly contribute to speeding up the resolution.

1.30 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, assumptions No.3 and No.6 have been updated.

1. In 1986, all U.S. demand for oil should be met. In 1983, it is expected the weighted price of oil will be \$34 per barrel; in 1984 it will go up to \$37 per barrel; in 1985, to \$40 per barrel; and in 1986, to \$42 per barrel.

ASSUMPTIONS

2. It is expected that the Mid-east crisis will continue throughout this year and more normal economic conditions including a significant resumption in the area of oil exports, will take place not earlier than in 1984.
3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-1986 period. In the second half of 1982 some relaxation, and in 1983 stabilizing is expected.
4. Increases in state and local taxation in 1982-1986 are anticipated.
5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.
6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. in 1983 and in 1984, U.S. record crops are expected in 1985-1986.
7. Average rates of growth in 1982-1986 in the major industrial countries are anticipated: West Germany 3.0%; Japan 3.5%; Italy 2.4%, Great Britain 2.1%; France 2.7%.
8. No drastic changes in international relationships are assumed.

The December 1982 KEDI forecast is highlighted in Table 1.0 on page 5.

1.10 REAL GROWTH (Table 1.10 on page 7)

The present situation is that the economy is stalled at a low level. There really isn't any real growth. Recent data confirm that stall.

1. In October, retail sales edged up by 0.6 per cent and preliminary data for November show only a small gain.

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1981	1982	1985	1986
Gross national product	bil. 1972\$	1502.6	1476.9	1619.9	1676.6
Index of industrial production	1967= 100	151.0	139.1	165.1	172.9
Capacity utilization	%	78.5	69.9	76.1	77.6
Unemployment rate	%	7.6	9.7	7.8	7.6
Private housing starts	%	1.084	1.024	1.542	1.619
Car sales	mil.	8.6	7.8	8.7	8.8
Implicit GNP price deflator	1972= 100	195.5	207.3	253.1	269.6
Consumer price index	1967= 100	272.4	289.5	355.3	380.5
Producer price index*	1967= 100	269.7	280.2	349.7	375.9
Federal deficit	bil.\$	-60.0	-137.6	-84.5	-58.9
Personal income	bil.\$	2415.8	2571.6	3160.4	3443.1
Prime rate	%	18.87	14.89	11.43	12.47
Mortgage rate	%	16.52	15.43	12.92	13.36
Currency plus demand deposits	bil.\$	427.1	456.1	557.0	597.1
Commercial and industrial loans	bil.\$	360.6	401.0	497.4	426.8

* Finished goods

REAL GROWTH

2. According to the survey of buying agents, the economy is still in a downward move. The purchasing managers' composite index was at the same level in both September and October: 37.7 per cent. There are no signs of any significant upwards move of that index in November. Any level below 50 per cent is seen as an indication that the economy is declining.

3. The factory-use rate reported at 68.4 per cent was the worst on record. It has gone down 13 of the last 15 months. KEDI's forecast shows 67.3 per cent for the fourth quarter of this year and 68.2 per cent for the first quarter of 1983.

There are some indications the economy will lag at the start of next year and then grow slowly during 1983.

1. New orders went up in September and after a temporary decline in October they are expected to grow for the last two months of this year and in 1983. KEDI sees very slight gains continuing through the first part of next year. After that, it will translate into higher production and employment.

2. Housing starts and sales have improved. Indications point to more gains. (See Section 1.41).

3. Iron Age magazine reported that bookings for major steel producers were up slightly for December. Nearly exhausted inventories are cited as the main reason for the change.

The forecast shows the main improvements in 1983 will be in the following areas: chemicals, coal, stone, clay and glass, airlines,

TABLE 1.10 REAL GROWTH
(Quarterly data are seasonally
adjusted at annual rates)

Indicator	Unit	1981*	1*	2*	3	4	1982	% (1)
Gross national product, 1972\$ 1972 \$	bil.	1502.6	1470.7	1478.4	1478.4	1480.2	1476.9	-1.7
Index of industrial product, 1967=100		151.0	141.6	139.2	138.2	137.3	139.1	-7.9
Unemployment rate	%	7.6	8.8	9.5	9.9	10.5	9.7	27.6
Capacity utilization rate	%	78.5	71.6	70.3	69.6	68.1	69.9	-11.0
Private housing starts	mil. units	1.084	.919	.958	1.104	1.114	1.024	-6.3
Car sales	mil. units	8.6	8.3	7.5	7.8	7.7	7.8	-9.4
Indicator	Unit	1982	1	2	3	4	1983	% (1)
Gross national product, 1972\$ 1972 \$	bil.	1476.9	1484.3	1498.6	1516.8	1535.7	1508.9	2.2
Index of industrial product, 1967=100		139.1	139.6	143.5	146.7	150.1	145.1	4.3
Unemployment rate	%	9.7	10.3	9.9	9.4	9.2	9.7	.0
Capacity utilization rate	%	69.9	68.2	69.1	70.2	71.3	69.7	-.3
Private housing starts	mil. units	1.024	1.089	1.356	1.411	1.384	1.310	27.9
Car sales	mil. units	7.8	7.9	8.0	7.9	8.1	8.0	5.2
Indicator	Unit	1983	1	2	3	4	1984	% (1)
Gross national product, 1972\$ 1972 \$	bil.	1508.9	1544.2	1558.3	1573.2	1590.7	1566.6	3.8
Index of industrial product, 1967=100		145.1	152.8	155.4	158.7	161.6	157.1	8.3
Unemployment rate	%	9.7	8.8	8.5	7.8	7.7	8.2	-5.5
Capacity utilization rate	%	69.7	72.5	74.3	75.7	76.2	74.7	7.2
Private housing starts	mil. units	1.310	1.390	1.422	1.503	1.484	1.450	10.7
Car sales	mil. units	8.0	8.3	8.4	8.5	8.6	8.5	6.2

REAL GROWTH

housing-related industries, appliances, construction, plastics, textiles, and truck transportation. Steel, automakers, machine tools, machinery, and appliances will be better off than they have been recently but still far below anything normal.

1.02 PRICES

(Table 1.20 on page 9)

The forecast of consumer prices has been slightly reduced.

Percentage Change Over the Prior Year

	Current Issue	Prior Issue
1982	6.3	6.5
1983	7.0	7.2

The October rate was above the September rate and shows that the battle is not over. KEDI maintains its general prediction that inflation will flutter in the 7-8 per cent area from 1983-86 and then edge down more. Reasons for this forecast are, in part, due to the changes in four main areas of prices during the next three years.

Energy items: Average yearly gains of 7 per cent. Medical care: Average yearly increases of 9 per cent are seen. Prices of services: Gains of 8 per cent a year are predicted for the cost of entertainment, hotels, restaurants, and other services. Real estate and houses: It is forecast that these prices will move ahead at an average annual rate of 6-7 per cent. These four areas will be exerting upward pressure on the CPI constantly over the next few years. The forecast here of the PPI remains essentially the same. Major increases of prices of raw materials and supplies are not expected any earlier than 1984.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise stated, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1981*	1*	2*	3	4	1982	\$ (1)
Consumer price index, n.s.a.	1967=100	272.4	282.5	286.8	292.8	295.8	289.5	6.3
Producer price index, n.s.a.**	1967=100	269.7	277.2	278.2	281.2	284.0	280.2	3.9
Implicit GNP price deflator	1972=100	195.5	203.6	206.0	208.4	212.2	207.3	6.0
Gross national product	bil.\$	2937.7	2995.5	3045.2	3080.6	3126.2	3061.7	4.2
Personal consumption expend.	bil.\$	1843.2	1919.4	1947.8	1987.5	2005.4	1965.0	6.6
Gross private dom. investment	bil.\$	471.5	414.8	431.5	441.3	453.1	435.1	-7.3
Indicator	Unit	1982	1	2	3	4	1983	\$ (1)
Consumer price index, n.s.a.	1967=100	289.5	301.3	305.8	312.8	317.9	309.5	6.9
Producer price index, n.s.a.**	1967=100	280.2	288.6	294.5	300.2	306.8	297.5	6.2
Implicit GNP price deflator	1972=100	207.3	214.9	218.5	221.0	225.0	219.9	6.1
Gross national product	bil.\$	3061.7	3189.7	3274.4	3352.1	3455.3	3318.0	8.4
Personal consumption expend.	bil.\$	1965.0	2015.4	2075.8	2152.9	2208.7	2113.2	7.5
Gross private dom. investment	bil.\$	435.1	468.6	472.4	493.1	510.6	486.2	11.7
Indicator	Unit	1983	1	2	3	4	1984	\$ (1)
Consumer price index, n.s.a.	1967=100	309.5	321.2	327.8	335.7	344.7	332.4	7.4
Producer price index, n.s.a.**	1967=100	297.5	311.5	316.7	324.9	334.8	322.0	8.2
Implicit GNP price deflator	1972=100	219.9	229.0	234.5	238.7	244.3	236.6	7.6
Gross national product	bil.\$	3318.0	3536.2	3654.2	3755.1	3886.1	3707.0	11.7
Personal consumption expend.	bil.\$	2113.2	2271.1	2290.4	2330.7	2380.7	2318.2	9.7
Gross private dom. investment	bil.\$	486.2	519.7	537.2	550.8	565.1	543.2	11.7

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 11)

The unemployment rate reached 10.4 in October and is now seen as exceeding that in November. KEDI has not anticipated that it would go much above 10 per cent. Unemployment will peak this quarter and will start to edge down during 1983 and 1984.

Job losses in the last quarter of this year will center in the machinery, machine tools, autos, and related industries. The service industry will also see some losses.

Things will look up some in 1983. High employment is seen in the defense industry, electronics, high technology, food and kindred products, wholesale trade and retail trade, petroleum, and banking.

Significant improvement will take place in nonelectrical and electrical machinery, paper, chemicals, construction on public projects, trucking, airlines, textile, and apparel. Slight gains will occur in rubber and plastics, stone, clay and glass, mining, printing and publishing, furniture, appliances, machine tools, and real estate. Problems will still exist for steel, ferrous and nonferrous metals, automobiles, and farm machinery and equipment.

Unemployment rate is seen now as averaging 9.7 per cent this year as opposed to 9.5 per cent in the last issue. The rate in 1983 is now seen as 9.8 per cent as compared to 8.7 per cent in the November issue.

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1*	2*	1982 3	4	1982	% (1)
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6	1.6
Civilian labor force	mil.	108.7	109.1	110.2	110.7	111.7	110.4	1.6
Employment	mil.	100.5	99.5	99.8	99.8	100.0	99.8	-.7
Agriculture	mil.	3.4	3.4	3.4	3.3	3.3	3.4	.0
Non agricult.	mil.	97.1	96.1	96.4	96.5	96.7	96.4	-.7
Unemployment rate	%	7.62	8.77	9.46	9.89	10.48	9.65	26.6

Indicator	Unit	1982	1	2	1983 3	4	1983	% (1)
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.4	112.4	113.6	114.7	115.6	114.1	3.4
Employment	mil.	99.8	100.7	100.9	103.9	105.0	102.6	2.8
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	96.4	96.4	97.5	100.5	101.7	99.1	2.7
Unemployment rate	%	9.65	10.38	9.92	9.54	9.21	9.74	.9

Indicator	Unit	1983	1	2	1984 3	4	1984	% (1)
Population	mil.	232.5	234.5	235.2	236.0	236.9	235.7	1.4
Civilian labor force	mil.	114.1	116.7	117.4	118.2	119.5	118.0	3.4
Employment	mil.	102.6	106.4	107.4	108.9	110.3	108.3	5.6
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	99.1	103.1	104.1	105.5	106.9	104.9	6.0
Unemployment rate	%	9.74	8.82	8.52	7.84	7.69	8.22-15.6	

1.41 HOUSING

(Table 1.41 on page 13)

Recent data are confirming the forecast here. Housing starts were up by 1 per cent in October to a seasonally adjusted annual rate of 1.112 million. Starts had climbed by 7.6 per cent in September. The October rate was over 30 per cent higher than the year-earlier pitiful level.

Starts of single-family houses increased by 1.3 per cent. Multifamily-unit starts edged up .5 per cent. New permits moved ahead in every region to reach an adjusted rate 60 per cent above the prior October.

KEDI is not quite as optimistic as the National Association of Realtors. They anticipate home sales will jump by 25 per cent to 2.5 million next year. A level of over two million is not foreseen here in the next few years.

The view of Allen Sinai of Data Resources that housing will recover some before the corporate sector is shared here. It won't be much of a recovery though. As Michael Evans indicated, even with mortgage rate chops, monthly payments would take about 30 per cent of disposable income as opposed to 20 per cent in the 1970's. This Institute agrees the high cost will prevent any significant rebound. Mortgage rates are expected to be around 11 per cent in 1983. That level, though improved over recent years is still high enough to prevent any real zip in fulfilled demand for housing.

1.42 AUTOMOBILES

(Table 1.42 on page 15)

The forecast remains the same: cars are in the pits. No recovery is

TABLE 1.41 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1 *	2 *	3	4	1982	% (1)
Single-family housing starts	mil.	.706	.586	.603	.638	.672	.625	11.5
Multifamily housing starts	mil.	.379	.333	.355	.476	.442	.402	6.1
Mobile home shipments	mil.	.241	.238	.246	.254	.251	.247	2.5
Permits authorized	mil.	.969	.832	.924	1.114	1.172	1.011	4.3
1-family unit** price, new	tho.\$	83.1	80.8	85.9	92.0	96.7	88.9	7.0
1-family unit** price, existing	tho.\$	78.0	79.2	80.8	83.0	86.8	82.5	5.8
Indicator	Unit	1982	1	2	3	4	1983	% (1)
Single-family housing starts	mil.	.625	.658	.810	.847	.812	.777	24.3
Multifamily housing starts	mil.	.402	.431	.546	.584	.572	.533	32.6
Mobile home shipments	mil.	.247	.271	.296	.303	.321	.298	20.6
Permits authorized	mil.	1.011	1.037	1.185	1.326	1.314	1.216	20.3
1-family unit** price, new	mil.	88.9	98.2	101.7	102.9	105.1	102.0	14.7
1-family unit** price, existing	tho.\$	82.5	89.1	91.9	94.8	97.6	95.6	15.9
Indicator	Unit	1983	1	2	3	4	1984	% (1)
Single-family housing starts	mil.	.777	.794	.829	.867	.876	.842	8.4
Multifamily housing starts	mil.	.533	.596	.593	.636	.608	.608	14.1
Mobile home shipments	mil.	.298	.294	.321	.346	.309	.318	6.7
Permits authorized	mil.	1.216	1.278	1.376	1.397	1.331	1.346	10.7
1-family unit** price, new	tho.\$	102.0	107.4	110.9	114.0	116.8	112.3	10.0
1-family unit** price, existing	tho.\$	95.6	99.1	101.5	103.8	105.9	102.6	7.3

*Historical data (1) % change over previous year **Not seas. adjusted

AUTOMOBILES

in sight. Autos will not lead us to recovery. Other sectors are changing that historic role.

Even though new car sales gained 7.9 per cent in October over the prior year, it is a fact that 1981 was so bad that the level is still way below normal.

Ford will shut down its assembly plant in California. That is the ninth such operation to fall victim of the current slump. Auto production is around 55 per cent of capacity which is far below being profitable.

GM had six new assembly plants scheduled three years ago. Only one was completed. The others were cancelled or put on delays. GM also announced in November that it would eliminate a work turn at one plant and temporarily close two others.

In all, auto makers plan to close seven more plants to balance inventories.

KEDI still sees total car sales as being down by over 9 per cent this year to a level of 7.8 million and only picking up slightly next year to roughly 8 million. As can be seen in Table 1.42, 1984 will be a little better with sales in the 8.6 million range.

1.50 BUDGETS

(Table 1.50 on page 17)

The projection of the Federal budget deficit has been increased. This Institute was on the mark with its forecast of the fiscal 1982 deficit whereas many others were excessive in their estimates.

KEDI agrees with majority of forecasters that the 1983 fiscal deficit

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1981*	1 *	2 * ¹⁹⁸²	3	4	1982	% (1)
Passenger cars								
Total sales	mil.	8.6	8.3	7.5	7.8	7.8	7.8	-9.3
Domestic	mil.	6.3	6.0	5.5	5.5	5.5	5.6	-11.2
Imported	mil.	2.3	2.3	2.0	2.2	2.3	2.1	-8.7
Dealers inven- tories**	mil.	1.5	1.1	1.2	1.6	1.7	1.4	-6.7
Factory shipments	mil.	6.3	4.1	4.9	5.1	5.3	4.9	-13.2
Light-duty truck sales	mil.	1.6	1.9	1.7	1.7	1.8	1.8	12.5
Indicator	Unit	1982	1	2 ¹⁹⁸³	3	4	1983	% (1)
Passenger cars								
Total sales	mil.	7.8	7.9	8.0	7.9	8.1	8.0	2.6
Domestic	mil.	5.6	6.1	6.0	6.0	6.3	6.1	8.9
Imported	mil.	2.1	1.8	2.0	1.9	1.8	1.9	-9.5
Dealers inven- tories**	mil.	1.4	1.7	1.6	1.4	1.4	1.5	7.1
Factory shipments**	mil.	4.8	5.6	5.8	5.5	6.1	5.8	20.8
Light-duty truck sales	mil.	1.8	1.7	1.8	1.9	1.9	1.8	.0
Indicator	Unit	1983	1	2 ¹⁹⁸⁴	3	4	1984	% (1)
Passenger cars								
Total sales	mil.	8.0	8.3	8.4	8.5	8.6	8.5	7.5
Domestic	mil.	6.1	6.6	6.7	6.9	6.9	6.8	11.5
Imported	mil.	1.9	1.7	1.7	1.6	1.7	1.7	-10.0
Dealers inven- tories**	mil.	1.5	1.5	1.5	1.4	1.6	1.5	.0
Factory shipments**	mil.	5.8	6.4	6.5	6.4	6.7	6.5	14.0
Light-duty truck sales	mil.	1.8	2.0	2.0	2.1	2.2	2.1	16.7

*Historical data (1) % change over previous year **Seas. not adjusted

BUDGETS

will be in the \$150 billion range. The 1984 total is now seen as being greater than the 1983 amount rather than less as was anticipated earlier.

Still, the red ink will not significantly reduce the capital formation of the private sector. Also, it will not cause higher interest rates. This is a view not shared by Martin Feldstein of the Council of Economic Advisers. Also, his view that the size of the deficit will also weaken the recovery as seen here as incorrect. As has been pointed out here in earlier issues, there are surpluses of funds elsewhere in the economy to fuel credit demands.

Events that have taken place in the latter half of this year show quite convincingly that a growing deficit does not cause interest rates to go up. The opposite has happened--contrary to what was anticipated by many economists.

As to state and local budgets, the forecast here is for fairly stable surpluses in the 1982-86 period in the \$30-33 billion range.

1.60 INCOME

(Table 1.60 on page 19)

The forecast of average hourly pay and weekly earnings of U.S. factory workers remains about the same. A gain of 4.1 per cent is seen for this year and 7.0 per cent in 1983. Not until 1985 and 1986 are more significant improvements expected.

Looking at it in more realistic terms by adjusting for inflation, real wages will decline in the next two years and then edge ahead just barely.

TABLE 1.50 FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1 *	2 *	3	4	1982	% (1)
Federal govt.:								
Income taxes	bil.\$	298.1	299.9	305.8	295.6	298.4	299.9	.6
Corporate prof. tax accruals	bil.\$	67.3	45.6	45.2	49.4	52.3	48.1-38.5	
Surplus/deficit	bil.\$	-60.0	-118.4	-119.6	-153.1	-155.8	-136.7	227.8
State and local governments:								
Income taxes	bil.\$	88.6	93.6	95.4	98.7	100.8	97.1	9.6
Corporate prof. tax accruals	bil.\$	10.1	10.1	10.2	11.4	11.7	10.9	7.9
Surplus/deficit	bil.\$	31.7	27.7	32.1	32.5	32.4	31.2	-1.6
Indicator	Unit	1982	1	2	3	4	1983	% (1)
Federal govt.:								
Income taxes	bil.\$	299.9	302.1	306.7	296.2	304.8	302.5	.9
Corporate prof. tax accruals	bil.\$	48.1	54.6	61.3	67.8	72.3	64.0	33.1
Surplus/deficit	bil.\$	-136.7	-147.3	-150.4	-162.7	-160.3	-155.2	13.5
State and local governments:								
Income taxes	bil.\$	97.1	103.2	107.6	110.9	112.0	108.4	11.6
Corporate prof. tax accruals	bil.\$	10.9	12.4	13.1	13.7	14.1	13.3	22.0
Surplus/deficit	bil.\$	31.2	33.4	34.7	36.7	35.3	35.0	12.2
Indicator	Unit	1983	1	2	3	4	1984	% (1)
Federal govt.:								
Income taxes	bil.\$	302.5	309.6	322.7	330.6	340.8	325.9	7.1
Corporate prof. tax accruals	bil.\$	64.0	73.7	76.8	79.5	83.1	78.3	22.1
Surplus/deficit	bil.\$	-155.2	-140.2	-119.7	-99.4	-90.6	-112.4	-27.1
State and local governments:								
Income taxes	bil.\$	108.4	113.1	115.4	120.3	124.2	118.3	9.1
Corporate prof. tax accruals	bil.\$	13.3	15.0	15.6	16.2	16.9	15.9	19.1
Surplus/deficit	bil.\$	35.0	35.2	35.4	36.5	37.3	36.1	3.1

*Historical data 1981: change over previous year

INCOME

1983. Real wages will represent 95 per cent of the 1982 level.

1984. Real wages will be at close to 97 per cent of the prior year.

1985. A bit of gain will show. The level will be 103 per cent of the 1984 pace.

1986. Another fractional increase is expected with wages being 104 per cent of the former year total.

The forecast of corporate profits is more optimistic. As KEDI predicted third quarter profits rose 2.4 per cent. That was the second consecutive gain. Profits are anticipated here to move ahead faster than the rate of inflation. KEDI projects a 10 per cent upward move in 1983, 12 per cent in 1984, 11 per cent in '85, and 10 per cent in 1986. This is not as high as the 15 per cent gain seen for 1983 by Mr. Lavery of Merrill Lynch, Pierce, Fenner & Smith. It certainly is not as high as the 25 per cent jump that Mr. Markowski of Sterling, Grace & Co. Indicates could take place.

1.70 MONEY AND CREDIT

(Table 1.70 on page 21)

The Federal Reserve has set up a target range for M1 of 2.5-5.5 per cent for the period from the fourth quarter of this year through the fourth quarter of next year. The target range for M2 is 6-9 per cent. KEDI data show that the money supply expansion will be around the upper targets. This Institute sees M1 as growing by 6 per cent and M2 slightly above the upper limit.

Consumer credit, The projection remains the same. The increase next year will be slight. It is assumed the Federal tax cut scheduled for

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1*	2*	1982 3	4	1982	¢ (1)
Personal income	bil.\$	2415.8	2510.5	2552.7	2596.0	2627.3	2571.6	6.4
Personal disposable income	bil.\$	2029.1	2117.1	2151.5	2201.7	2228.1	2174.6	7.2
Compensation of employees	bil.\$	1767.6	1819.9	1850.7	1868.3	1910.3	1862.3	5.4
Corporate after tax profits	bil.\$	150.9	115.9	116.3	119.1	123.3	118.7	21.1
Personal saving	bil.\$	130.2	139.1	144.3	154.4	153.7	147.9	13.6
Average weekly earnings	\$	316.8	323.4	331.6	333.4	336.9	331.3	4.6
Indicator	Unit	1982	1	2	1983 3	4	1983	¢ (1)
Personal income	bil.\$	2571.6	2059.4	2690.8	2739.5	2801.4	2722.8	5.9
Personal disposable income	bil.\$	2174.6	2254.1	2276.5	2332.4	2384.6	2311.9	6.3
Compensation of employees	bil.\$	1862.3	1930.4	1971.2	1998.7	2031.5	1983.0	6.5
Corporate after tax profits	bil.\$	118.7	126.1	130.2	137.5	142.1	134.0	12.9
Personal saving	bil.\$	147.9	152.6	149.3	157.4	157.2	154.1	4.2
Average weekly earnings	\$	331.3	339.7	350.4	356.2	358.1	351.1	6.0
Indicator	Unit	1983	1	2	1984 3	4	1984	¢ (1)
Personal income	bil.\$	2722.8	2846.5	2911.3	2958.7	3011.6	2932.0	7.6
Personal disposable income	bil.\$	2311.9	2423.8	2473.2	2507.8	2546.6	2487.9	7.6
Compensation of employees	bil.\$	1983.0	2068.4	2136.2	2198.5	2524.1	2231.8	12.5
Corporate after tax profits	bil.\$	134.0	149.7	153.4	156.1	161.2	155.1	15.7
Personal saving	bil.\$	154.1	155.3	160.4	163.7	165.2	161.1	4.5
Average weekly earnings	\$	351.1	367.6	372.7	376.5	383.2	375.0	6.8

MONEY AND CREDIT

July of next year will not have much impact on demand for consumer credit. Business loans. Here will be more activity. Such loans are expected to increase vigorously throughout the next two years. Mainly involved will be food, petroleum refining, mining, public utilities, and service industries. Mortgages. KEDI calculates that mortgage credit will expand by 4.7 per cent next year over the current year and 7.0 per cent between 1983 and 1984. Such a rate of change is in line with the anticipated performance of the housing industry. Savings and Loan Associations' share of total mortgage credit will expand in 1983 and following years.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 23)

For about two years KEDI has been forecasting lower interest rates for the latter part of this year, and that forecast has been realized. Many economists found themselves projecting just the opposite as they often went by the simplistic view that higher Federal deficits mean higher interest rates.

The projection of interest rates and yields remains basically unchanged in this issue. Rates will stabilize and remain at about the same level throughout most of 1983. In the last quarter of that year some increase is expected.

The recent decline in the discount rate to 9 per cent is expected to last through December. There may be a bit more of a decrease in the first month of 1983. Slight additional declines in the prime and other

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency and demand deposits, M1",
"Time deposits, adjusted, M2", and "Large denom-
ination time deposits" are averages of daily
figures; other data are end of period figures)

Indicator	Unit	1981*	1 *	2 *	1982 3	4	1982	% (1)
Currency and de- mand deposits, M1	bil.\$	427.1	448.0	451.8	454.5	470.1	456.1	6.8
Time deposits, adjusted, M2	bil.\$	1723.4	1851.1	1895.4	1941.3	1984.3	1923.0	11.6
Consumer instal. credit	bil.\$	333.4	327.1	331.9	340.1	350.2	350.2	5.0
Commerc. & indus. loans at banks	bil.\$	360.2	369.0	380.7	390.4	401.2	401.2	11.4
Large denomina- tion time dep.	bil.\$	295.4	307.7	322.4	328.9	330.9	322.5	9.2
Mortgages at S & L Assns.	bil.\$	518.4	515.9	512.7	517.4	525.6	525.6	1.4

Indicator	Unit	1982	1	2	1983 3	4	1983	% (1)
Currency and de- mand deposits, M1	bil.\$	456.1	475.2	480.3	489.6	496.4	485.3	6.4
Time deposits, adjusted, M2	bil.\$	1923.0	2008.6	2052.1	2082.3	2128.4	2067.9	7.5
Consumer instal. credit	bil.\$	350.2	353.7	358.9	367.4	376.2	376.2	7.4
Commerc. & indus. loans at banks	bil.\$	401.2	408.5	413.2	421.4	429.7	429.7	7.2
Large denomina- tion time dep.	bil.\$	322.5	334.3	338.0	344.2	350.6	341.8	6.0
Mortgages at S & L Assns.	bil.\$	525.6	530.6	535.9	547.3	550.8	550.8	4.8

Indicator	Unit	1983	1	2	1984 3	4	1984	% (1)
Currency and de- mand deposits, M1	bil.\$	485.3	504.2	514.7	527.3	539.6	521.5	7.5
Time deposits, adjusted, M2	bil.\$	2067.9	2179.6	2239.2	2268.7	2329.9	2254.4	9.0
Consumer instal. credit	bil.\$	376.2	381.7	390.4	400.6	410.8	410.8	9.2
Commerc. & indus. loans at banks	bil.\$	429.7	437.5	450.9	457.9	468.3	468.3	9.0
Large denomina- tion time dep.	bil.\$	341.8	355.4	368.0	379.4	388.1	372.7	9.0
Mortgages at S & L Assns.	bil.\$	550.8	559.4	571.6	580.7	591.3	591.3	7.3

INTEREST RATES, YIELDS, AND SECURITIES PRICES

short-term rates are anticipated here. KEDI looks to the prime rate as being in the 11-12 per cent range next year.

For a change of pace, this Institute agrees with Henry Kaufman of Salomon Brothers that the economy is in a state of immobility, and that there will be a bit more decline in interest rates.

The outlook here for prices of stocks and bonds is that they will be about stable next year with some increases of a mild nature toward the end of the year. As to stocks, the Dow Jones is seen as averaging 950-960 in the first part of 1983 and 970-980 in the last half. The Standard & Poor's 500 is seen in 124-26 and 126-130 range in the first and second half of next year, respectively.

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Personal Consumption Expenditures on Services in current dollars for the year 1981 (before the July 1981 revision) has been selected for comparison. The actual figure is in Table 1.1 of the Survey of Current Business, No. 3, March 1982 (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1981 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1981). Some forecasters were unable to catch the December 1980 revision of the Income and Product data, and their forecasts may deviate because of this reason. Table 2.0 on page 24 shows the predictions of forecasters and deviations of forecast data.

TABLE 1.80 INTEREST RATES, YIELDS,
AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1981*	1*	1982			4	1982	% (1)
Treasury bills (3 mo) yield	%	14.03	12.81	11.97	9.65	9.57	11.00	-21.6	
Prime rate	%	18.87	16.27	16.50	14.59	12.14	14.89	-20.1	
Conventional mortgages rate	%	16.52	17.10	16.58	14.76	13.27	15.43	-6.6	
Aaa corporate bonds rate	%	14.17	15.01	14.52	13.69	12.89	14.03	-1.0	
20 years Govt. bonds yield	%	13.72	14.27	13.80	13.24	12.24	13.39	-2.4	
Standard & Poor's 500 avg.	1941- 43=100	128.05	114.25	114.12	113.82	126.43	117.16	-8.5	
Indicator	Unit	1982	1	1983			4	1983	% (1)
Treasury bills (3 mo) yield	%	11.00	9.81	10.02	10.63	11.05	10.38	-5.6	
Prime rate	%	14.89	11.36	11.85	12.01	12.48	11.93	-19.9	
Conventional mortgages rate	%	15.43	13.08	13.04	13.42	13.79	13.33	-13.6	
Aaa corporate bonds rate	%	14.03	12.58	12.01	11.92	11.83	12.09	-13.8	
20 years Govt. bonds yield	%	13.39	12.68	12.71	12.98	13.10	12.87	-13.9	
Standard & Poor's 500 avg.	1941- 43=100	117.16	126.29	125.92	127.43	128.47	127.04	8.4	
Indicator	Unit	1983	1	1984			4	1984	% (1)
Treasury bills (3 mo) yield	%	10.38	11.14	11.25	11.97	12.18	11.64	12.1	
Prime rate	%	11.93	12.32	12.02	11.68	12.59	12.15	1.8	
Conventional mortgages rate	%	13.33	13.29	13.22	12.91	13.09	13.13	-1.5	
Aaa corporate bonds rate	%	12.09	12.05	12.34	12.79	12.98	12.54	3.7	
20 years Govt. bonds yield	%	12.87	13.19	13.45	13.74	13.66	13.51	5.0	
Standard & Poor's 500 avg.	1941- 43=100	127.04	124.58	125.50	126.25	123.80	124.78	-1.8	

Table 2.0 COMPARISONS OF ACCURACY OF
PREDICTIONS

(Personal Consumption Expenditures on Services,
1981, billions dollars)

Actual figure: 882.0

<u>Forecaster</u>	<u>Date of Forecast</u>	<u>Forecast</u>	<u>Page of Business Forecasts 1981</u>	<u>% of Accuracy</u>
United California Bank	10/80	872.0	6	-1.1
George Gols, Arthur D. Little, Inc.	11/80	878.7	6	-.4
Albert T. Sommers, The Conference Board	11/20/80	914.0	8	3.6
Metropolitan Life	12/80	885.9	10	.4
U.S. Trust Company	12/80	898.0	12	1.8
Calvin R. Myers, The Merchants National Bank of Aurora	12/5/80	884.2	12	.2
United Business Service	12/8/80	860.0	14	-2.5
Walter D. Fackler, University of Chicago	12/8/80	890.0	14	.9
Robert J. Genetski, Harris Trust and Savings Bank	12/19/80	896.5	16	1.6
Georgia State	11/80	905.3	23	2.6
The First National Bank of Chicago	11/8/80	910.0	24	3.2
Manufacturers Hanover Trust	11/12/80	851.2	25	-3.5
Bankers Trust	12/10/80	905.7	30	2.7
Standard & Poor's	12/11/80	884.0	31	.2
KEDI	12/30/80	873.3	33	-.9
Fidelity Bank	12/31/80	910.0	34	3.2
Morgan Guaranty	1/6/81	884.1	35	.2
Chase Econometrics	1/7/81	875.6	36	.7

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

<u>Table No.</u>	<u>Data Series</u>	<u>Source</u>
REAL GROWTH	Gross national product, 1972\$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
PRICES AND NOMINAL GNP	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit GNP price deflator	SCB, Table 7.1
	Gross national product	SCB, Table 1.1
	Personal consumption expenditures	SCB, Table 1.1
	Gross private domestic investment	SCB, Table 1.1
EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	-Agriculture	SCB, Blue pages
	-Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

<u>Category No.</u>	<u>Data Series</u>	<u>Source</u>
1 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
2 AUTOMOBILES	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
3 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.: Income taxes	SCB, Table 3.2
	Corp. profit tax accr.	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local	SCB, Table 3.3
	Income taxes	SCB, Table 3.3
	Corp. profit tax accr.	SCB, Table 3.3
	governments: Surplus/deficit	SCB, Table 3.3
4 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
5 MONEY AND CREDIT	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.56
	Commercial & industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.55
6 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Conventional mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years Government bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36